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SUBJECT: VISIT OF GERMAN MINISTER OF ECONOMIC AFFAIRS TO NORWAY

Supplementing the summary reports in Embdespatches 831, May 16, 1958, 845, May 23, 1958 and 853, May 29, 1958 which covered the high points of the visit of Dr. Ludwig ERHARD to Norway on May 22-25, 1958 and editorial and other comments on the visit, there is enclosed a translation of excerpts from Oslo press reports on May 23, 1958 following the Minister's principal address.

For the Ambassador:

Harvey R. Wellman
Counselor of Embassy for
Economic Affairs

Enclosure:

Translation of Excerpts from Oslo press, May 23, 1958.

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Translation of Excerpts from Oslo press, May 23, 1958.

German Minister of Economic Affairs Speaks in Oslo.

The moral and political forces behind the integration plans are so strong that no country dares take the responsibility for an economic policy which would prevent the establishment of a European free trade area. It is my conviction that these forces are sufficiently powerful in themselves to force through a free trade area, the West-German Vice-Chancellor and Minister of Economic Affairs, Professor Dr. LUDWIG ERHARD stated at a meeting in Oslo yesterday. The meeting was arranged by STATSKONOMISK FORENING (association of political economists) and the Norwegian Federation of Industries. Over 350 people attended, including Prime Minister EINAR GERHARDSEN, Foreign Minister HALVARD LANGE, Minister of Commerce ARNE SKAUG and a number of prominent economists and industrial representatives.

Professor Erhard lectured on the subject "Die Wirtschaftspolitik der Bundesrepublik Deutschland und die Europäische Wirtschaftsintegration" (the economic policy of the German Federal Republic and European economic integration).

In his introduction the professor described the critical conditions in Germany up to the currency reform in 1948. He frankly admitted that Germany itself was to blame and had to overcome the difficulties on its own. How this had been achieved he related with great skill and conviction in his almost 2-hour long lecture. Mr. Erhard's economic philosophy is well known from his book "Wohlstand für alle" and earlier lectures.

My social market economy is based on two principles, he declared: Freedom and order. Free price mechanism and free competition to the greatest degree possible. On the other hand, economic policy is up to the government. The government must direct the efforts of individuals and business into the right channels so that the total result will be the highest degree of prosperity for all. Order and freedom are inextricably bound together. Order without freedom leads to force, freedom without order to chaos. This applies to international cooperation as well as national economy. Before World War I we had a good system in the old gold standard, which made the countries live within their means. Today the situation is different. The government is responsible for economic developments; it is within its power to create sound and stable conditions if it employs all the economic means at its disposal to that end. In the international economic cooperation much has been achieved through OEEC and EPU. But the negotiations on expanded cooperation through a free trade area seem to have reached a critical point. For now national sacrifices are required, and so the countries hesitate. The demands for harmonization are typical. One forgets that the very idea of increasing economic cooperation in Europe is based on the different industrial patterns of the nations. If the

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differences are levelled out, the free trade idea will lose much of its substance. One does not start with harmonization, - harmonization is a goal.

Mr. Erhard pointed out that the large German foreign exchange reserves today represent a disturbing element in European payments relations. It is not a desirable situation for West Germany, as the surplus accentuates the price pressure. The reason for the high surplus lies in the rates of exchange, an intra-currency "calculation mistake", Mr. Erhard strongly emphasized that there will be no revaluation in Germany, however. Nor would he agree to an inflationary policy to bring Germany into line with other countries. We Germans know that inflation really is, he said, and we do not want it again. Discussing the various economic systems, the professor stated that high production and strong economy will may thrive in a communist state, but we do not want such a system, and must therefore work out another. Europe is no homogeneous continent, and our great problem is to co-ordinate all the conflicting interests. Generally, we may say that the economic system we must arrive at must be based on technological progress and research, and have as its goal differentiated consumption and ways of life.

Mr. Erhard strongly stressed the need for wide European cooperation to avoid sharp economic fluctuations and create a stable economy. But this must not happen at the expense of the purchasing power and stability of the currencies. In connection with the establishment of a free trade area it is of prime importance to create a new international payments system as a basis for increasing trade. A monetary fund with the advantages of the old gold standard but without its disadvantages.

Europe today is squeezed between two big powers - the Soviet Union and the United States, and all the problems that arise on that account demonstrate that we no longer can stand alone, politically or economically. Nevertheless there are many countries which hesitate to join the free trade area, in the belief that a protectionist commercial policy will be to their advantage. So it might, but only in the short run. These countries, or circles in the countries, fail to take into consideration that all countries in the long run will benefit from integration in a European free trade area. We must endeavour to co-ordinate all conflicting interests in a cooperation based on the sovereignty of the individual country. A free trade area has political aspects as well. It is necessary to reckon with some degree of political integration, even though it is the assumption that the free trade area be based on national sovereignty. In my view, a country is not ripe for economic integration with others before it is ready to accept the political consequences.

With regard to the relations between the European common market and the free trade area, Mr. Erhard emphasized that the common market is no disturbing factor in the European integration plans. It is

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being argued that the common market will be discriminatory. That is not the objective, it is the consequence of a customs union. It is of the utmost importance that a firm policy be adopted, designed to prevent trade war and a split of the European countries, and the instrument we have is a European free trade area, Mr. Erhard declared.

Following the lecture there was a discussion, which the professor concluded with these words: When Germany and France with all their dissimilarities and old conflicts can join a common market, there is no argument at all to prevent the West-European countries from reaching agreement on a free trade area. A free trade area is both essential and inevitable. It can be established, it ought to be established, and it must be established. No country can take the responsibility for destroying the plan.

The discussion was opened by Bank Manager JOHAN MELANDER, (DEN NORSKE CREDITBANK), who pointed out that one of the principal problems in the free trade negotiations is the tariffs with the outside world. Europe imports raw materials and food and exports manufactures, and low tariffs are necessary for the competitive status. Another problem that must be solved is the imbalance in international payments. If a European monetary fund is established, it will be necessary first to adjust European rates of exchange. The economic policy of the European countries must be co-ordinated to a greater extent.

Director JOAKIM IHLEN, private businessman, mentioned that the people of Norway on the whole are in favor of a free trade area, but the condition must be that fish and fish products are included. Mr. Erhard replied that he could not guarantee this, but that he would do his best. He said that the German market at any rate will be open for fish and fish products.

Financial Counselor OLIVIER BRICHARD, Ministry of Finance, asked Mr. Erhard to work for joint action by the OEEC countries to counter the economic decline and let expansion go on again. The extreme debtor and creditor positions in EPU are a threat to progress in Europe, and the situation is aggravated by the low international liquidity, he stated.

translated by: Gern Lander

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